Minutes of the September 7, 2006 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in Board Room 1 of the General Administration Building in Chapel Hill, North Carolina on Thursday, September 7, 2006, at 2:00 p.m.

Members in attendance were: Mr. Bradley T. Adcock, Mr. Brent D. Barringer, Ms. Peaches G. Blank, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., Governor James E. Holshouser, Jr., Mr. Peter Keber, and Mr. David W. Young. Attending from General Administration were Vice Presidents Robert O. Nelson and Leslie Winner; Associate Vice Presidents Ginger Burks, George Burnette, Shari Harris, David Harrison, and James O. Smith; Assistant Vice President Claudia Odom; Associate Vice President and University Property Officer Terrance Feravich, and Bond Program Manager Richard Cox. Chancellors in attendance were: Steven C. Ballard (ECU), Willie J. Gilchrist (ECSU), James H. Ammons, Jr. (NCCU), James C. Moeser (UNC-CH), Philip L. Dubois (UNCC), Allen C. Meadors (UNCP), and John W. Bardo (WCU). Also in attendance were Dean W. Steven Jones of the Kenan-Flagler Business School at UNC-Chapel Hill, and Office of State Budget and Management Analyst Kristin Crosson, as well as members of the press.

Chair Bowden convened the meeting. The minutes of the meeting of August 10, 2006 were approved.

1. The Kenan-Flagler School of Business of the University of North Carolina at Chapel Hill had requested authority to establish three associated entities, the KFBSF Private Equity Fund I, L.P., the KFBSF Real Estate Fund I, L.P., and KFBSF, Inc., none of which would have tax-exempt status at their time of establishment. Application for tax-exempt status would be made after the entities were established, but there was no assurance the entities would qualify.

   The University of North Carolina Regulation #600.2.5.2[R] required that associated entities have not-for-profit corporate and tax-exempt status unless the Board of Governors approved otherwise. The Kenan-Flagler School of Business at UNC-CH had requested establishment of a not-for-profit corporation and two LLC investment funds, to be structured as North Carolina limited partnerships, as associated entities without acquiring nonprofit tax-exempt status. They would be educational programs of the Business School.

   The LLCs would give selected students hands-on experience in operating private investment funds. These students would work with faculty and friends of the Business School to identify and evaluate investment opportunities and to make investment recommendations to the General Partner of each entity. The students would participate, without pay, as part of an investment management course, for academic credit. After an investment was made by the partnerships, the students would monitor the investment. Through the identification, evaluation, and monitoring process, it was expected that students would gain insights into the operation and management of private investment funds and their portfolio companies and establish personal and professional relationships with investment managers. A secondary objective was to provide investment returns to the limited partners who were the investors.

The General Partner of each investment fund would be KFBSF, Inc., a North Carolina not-for-profit corporation of which the Kenan-Flagler Business School Foundation, Inc. (the Business Foundation) would be the sole member. The investors would be by invitation only and would be selected for their expertise and relationship with the school.

The General Partner would be organized and operated to support the Business School and its educational programs and would apply to the Internal Revenue Service for a determination that it was exempt from tax under Section 501(c)(3) of the Internal Revenue Code. However, there was no assurance that the General Partner would qualify as a tax-exempt entity.

The General Partner would be managed under the direction of its Board of Directors. The Board of Directors would consist of five directors, three of whom would be employees of the University assigned to the Business School and two of whom would be elected by the Board of Directors of the Business Foundation. The University directors would be the Chief Financial Officer of the Business School and two members of the faculty at the Business School appointed by the Dean from time to time (one of whom may be the Dean).

From funds provided by the Business Foundation, the General Partner would make capital contributions to each investment fund equal to 1% of the total capital contributions to that fund. The General Partner would initially be entitled to receive from each investment fund a management fee equal to 2% per annum of each Limited Partner's capital commitment, payable quarterly in advance. The General Partner would be responsible for compensating its service providers and for its general overhead expenses, including rent, supplies, utilities and equipment, and for routine travel and related expenses incurred in investigating investment opportunities and monitoring investments.

After distributions to the Limited Partners equal to the amount of their capital contributions and an 8% preferred return on their capital contributions, the General Partner would be entitled to receive a portion of the net profits realized by the investment fund, 40% in the case of the real estate fund and 20% in the case of the private equity fund. To the extent that the amounts paid to the General Partner exceeded its operating expenses, the excess would be transferred to the Business Foundation and used to support the Business School.

The articles of incorporation of the General Partner would provide that, on dissolution, any remaining net assets would be transferred to the Business Foundation. In addition, the General Partner would adopt appropriate conflict of interest, document retention, and whistleblower policies. Accordingly, subject to obtaining tax-exempt status, the General Partner would satisfy the requirements for associated entities of the UNC regulation. However, the Internal Revenue Service might take the position that the fees being charged by the General Partner were inconsistent with tax-exempt status.

It was recommended that the Board of Governors allow the establishment of KFBSF Private Equity Fund I, L.P., KFBSF Real Estate Fund I, L.P., and KFBSF, Inc. as UNC-CH associated entities to manage the investment funds as educational programs at the Kenan-Flagler School of Business without their obtaining nonprofit tax-exempt status.

On the motion of Ms. Blank, seconded by Mr. Broadwell, the recommendation was approved.

2. Senate Bill 912 (S.L. 2000-03), authorized the issuance of $3.1 billion in higher education bonds subject to a vote of the qualified voters of the State. In November 2000, upon the approval of a majority of voters, $2.5 billion was made available to the University of North Carolina for capital improvements.

   Senate Bill 912 required that the Board of Governors report annually to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee on the condition of the University's capital facilities and the repair, renovation, and maintenance projects being undertaken and proposed.

   Senate Bill 912 further required that the Board of Governors report annually to the Joint Legislative Commission on Governmental Operations on the bond program.

   It was recommended that the subject report be approved and transmitted to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee.

   On the motion of Mr. Young, seconded by Mr. Barringer, the recommendation was approved.

3. The Board of Trustees of the University of North Carolina at Charlotte had requested the authority to establish five new capital improvements projects.

   The first project constructed a backup server room in the College of Health and Human Services building for the university's information technology systems. The new server room would connect to the campus fiber backbone, have new electrical circuits to power servers, and be provided with a redundant back-up power system including an uninterrupted power source (UPS), batteries, and a generator. The project, estimated to cost $1,300,000, would be funded from a combination of facilities and administrative receipts and carry-forward funds, which were operating funds unexpended on June 30 and, pursuant to state law, were "carried forward" into the next fiscal year to support one-time expenditures.

   The second project would convert three spaces totaling approximately 11,000 square feet in Rowe Hall to modern lecture hall use. The theater, the largest of the three spaces, was no longer needed because of the opening of the performing arts spaces in Robinson Hall and lecture hall space was in very short supply. Conversion of the spaces included installation of new seating, new lighting, and "smart classroom" audio visual systems. The project, estimated to cost $1,500,000, would be funded from a combination of carry-forward funds and facilities and administrative receipts.

   The third project would significantly improve pedestrian flow and safety on campus by adding sidewalks, stairs, and lighting between the Library, Student Activity Center, and the

Cone University Center. The project would create a vibrant outdoor space for students and faculty. The project, estimated to cost $900,000, would be funded from a combination of carry-forward funds and facilities and administrative receipts.

The fourth project would replace the existing bleacher seating at the intercollegiate softball stadium with approximately 400 stadium seats, including required ADA seating. A brick wall around the back of the new seating would greatly enhance the aesthetics of the stadium. The project, estimated to cost $700,000, would be funded from private gifts.

The fifth project replaced deteriorating vinyl siding on nine residence halls built in 1980. This project would also correct any structural deficiencies found in the wood frame of the buildings when the old siding was removed. New siding would significantly improve the appearance of these residence halls. The project, expected to cost $1,100,000, would be funded from housing receipts.

All five projects were approved by the UNC Charlotte Board of Trustees on July 23, 2006.

It was recommended that these projects be authorized and that the methods of financing as proposed by the University of North Carolina at Charlotte be approved.

On the motion of Mr. Keber, seconded by Ms. Blank, the recommendation was approved.

4. Winston-Salem State University had requested the authority to establish two new capital improvements projects.

   The first project would renovate approximately 2,200 square feet of teaching and office space in the Hall-Patterson Building that was used by the Mass Communications Department. Work would include adding electrical/data capacity to teaching spaces, improving the heating, air-conditioning and ventilation system serving the radio station, and reconfiguring office and support space. The project, estimated to cost $209,000 would be funded from carry-forward funds.

   The second project would make the infrastructure improvements needed for the installation of a modular office complex that would provide space for approximately 80 faculty and staff. Site work would extend campus utilities (power, data, water, sanitary sewer and storm sewer to an area near the lower ball field) and create parking for the complex. The project, estimated to cost $381,000, would be funded from carry-forward funds.

   It was recommended that these projects be authorized and that the method of financing as proposed by Winston-Salem State University be approved.

   On the motion of Ms. Blank, seconded by Mr. Young, the recommendation was approved.

5. The Chancellor of Winston-Salem State University had informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to make needed repairs by the quickest means possible for the following project.

Declared on August 15, 2006, WSSU had an urgent need to complete repairs on an electrical/telecommunications ductbank serving a number of buildings on the south side of campus. Two power service interruptions occurred during the month of July, and on both occasions, significant damage was done to electrical equipment.

The project, estimated to cost $150,000, would be funded from 2005 Repairs and Renovations funds.

In accordance with emergency procedures, the State Building Commission had been notified.

6. In 2001, the Board authorized the Office of the President to execute leases valued up to $150,000 and dispositions up to $250,000. The following property transaction was approved under this delegation and was reported to the Committee on Budget and Finance.

<u>East Carolina University – Disposition of Real Property by Lease</u>

Owner:	State of North Carolina
Disposition reason:	To allow Pitt County Memorial Hospital (the teaching hospital affiliated with ECU's Brody School of Medicine) the use of the old Health Sciences Library space for computer software training
Location:	Brody School of Medicine, East Carolina University, Pitt County
Description:	5,142 square feet of vacant library space within ECU's Brody School of Medicine
Term:	Nine-month period expected to be from October 2006 through June 2007
Rental Income:	$52,063 for the nine-month term
Proceeds:	Any net proceeds were recommended to be deposited with the State Treasurer per G.S. 146.30.
Approvals:	The ECU Board of Trustees recommended this action on August 7, 2006.

At this time, Chair Bowden called for the progress report on the UNC Bond Program. As had traditionally been the case, there had been a flurry of activity as institutions pushed to complete facilities over the summer so that they would be available for students beginning with the fall semester. ASU's Smith-Wright Classroom Renovation ($1.6M), FSU's Lyons Science and Laboratory Building Renovation and Addition ($11.6M), UNCA's Carmichael Hall Classroom Building Renovation ($5.2M), UNC-CH's New West Classroom Building Renovations ($3.3M), UNCC's Graduate Engineering and Research Complex ($22.8M), UNCG's Studio Arts Instructional Center ($17.3M), and WSSU's Health Center Renovation ($2.2M) would significantly improve the experiences of students at those institutions. NCA&T had awarded its New School of Education ($15.8M) since the last report. There were less than 38 bid packages remaining to be advertised.

In August, the Higher Education Bond Oversight Committee held its quarterly meeting at the Community College Offices in Raleigh.

Since the beginning of the program, $350,000,000 had been awarded for construction to HUB contractors. This was equivalent to 16.3% of the contract awards and was comprised of 3.48% for African-American, 8.17% for Women-owned, and 4.66% for other minority contractors.

On the motion of Mr. Adcock, seconded by Ms. Blank, the Committee went into closed session to consult with our attorney to establish or instruct the staff concerning the negotiation of the price and terms of a contract concerning the acquisition of real property.

CLOSED SESSION

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The Committee returned to open session.

There being no further business, the meeting was adjourned.

Mr. R. Steve Bowden Chair of the Committee on Budget and Finance	Mr. Bradley T. Adcock Secretary of the Committee on Budget and Finance